

Message Text

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ACTION AID-59

INFO OCT-01 NEA-10 ISO-00 EB-07 L-03 AGR-05 IGA-01 SP-02

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

XMB-02 /117 W

----- 081540

R 260435Z JUL 75

FM AMEMBASSY DACCA

TO SECSTATE WASHDC PRIORITY 7541

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EO 11652: N/A

TAGS: EAGR, EAID, BG

SUBJ: PL 480 TITLE I NEGOTIATIONS WITH BANGLADESH

REF: (A) STATE 170157 (B) AIDTO CIRCULAR A-487

SUMMARY MISOFFS MET JULY 23 WITH BDG OFFICIALS TO PRESENT DRAFT AGREEMENT PER PARA 1 REFTEL TOGETHER WITH WRITTEN COMMENTS FROM REFTEL AND REF AIRGRAM AS EVENTUAL BASIS FOR AGREED MINUTES. BDG QUESTIONS CENTERED ON CURRENCY USE PAYMENT (CUP) AND BANKING OF TAKA FUNDS, NEW REQUIREMENTS FOR OCEAN TRANSPORTATION/COMMODITIES TENDERS, AND SELF-HELP MEASURES, ESPECIALLY 5(C) AND (D), REFTEL A. BDG TO PROVIDE FORMAL REACTION AUGUST 4 AND HOPES CONCLUDE AGREEMENT SOON THEREAFTER. IN INTERIM, BDG REQUESTS USG RECONSIDERATION OF INCLUSION CUP THIS AGREEMENT. END SUMMARY.

1. AGRICULTURAL ATTACHE, AID MISSION DEPUTY DIRECTOR AND ECON COUNSELOR MET JULY 23 WITH PLANNING COMMISSION JOINT SECRETARY HOSSAIN AND DEPUTY SECTION CHIEF ZEARUDDIN, FINANCE MINISTRY JINT SECRETARY (EXTERNAL RESOURCES) RAHMAN AND FOOD AND CIVIL SUPPLIES MINISTRY DEPUTY SECRETARY MATIN KHAN TO PRESENT PROPOSED FY 76 PL 480 TITLE I AGREEMENT PER REFTEL A. MISOFFS ALSO
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SUBMITTED INFORMAL WRITTEN STATEMENT OF NEGOTIATING

POINTS BASED ON BOTH REFERENCED MESSAGES WHICH COULD
BECOME BASIS FOR TEXT OF AGREED MINUTES.

2. BDG OFFICIALS, WHILE TACITLY ADMITTING THAT THEY
WOULD HAVE TO ACCEPT CURRENCY USE PAYMENT, FULLY
RECOGNIZED FORX LOSS THEY WOULD EXPERIENCE BY REDUCTION
OF PROSPECTIVE USG TAKA PURCHASES. THEY DID NOT FOLLOW
LOGIC OF THIS CUP REQUIREMENT IN TERMS OF USG DESIRE TO
HELP BDG OVERALL ECONOMIC SITUATION. THEY ALSO EXPRESSED

CONCERN OVER POSSIBILITY THAT TKA PAYMENTS GENERATED
BY THIS AGREEMENT, ANY AMENDMENTS TO TI, AND FUTURE
YEARS AGREEMENTS COULD GENERATE TAKA PAYMENTS IN EXCESS
OF USG NEEDS AND THAT UNRESTRICTED RIGHT OF USG TO
MAKE DEMAND AND TIME DEPOSITS WITH THESE FUNDS COULD
HAVE SERIOUS REPERCUSSIONS ON BDG ABILITY TO CONTROL
INFLATION AND MANAGE MONETARY POLICY. BDG OFFICIALS
PLAN SUBMIT DRAFT SENTENCE FOR AGREED MINUTES NOTING
NEED TO REVIEW CONDITIONS, TIME AND AMOUNT SUCH LOCAL
CURRENCY PAYMENTS. THEY INDICATED BDG PREFERENCE WOULD
BE FOR FUNDS TO BE DEPOSIT IN BDG STATE BANK. WE
NOTED FUNDS WOULD BE STRICTLY US OWNED AFTER PAYMENT
AND THEREFORE DECISION ON DEPOSIT SHOULD BE USG'S.

3. DR. HOSSAIN JULY 25 PHONED AGATT TO EXPLAIN THAT
NO RPT NOT DECISION ON CUP POSSIBLE IN ABSENCE MINFINANCE
AND FINANCE SECRETARY WHO SCHEDULED RETURN JULY 31
FROM ISLAMIC DEVELOPMENT BANK MEETING. HOWEVER, AVAIL-
ABLE FINANCE MINISTRY AND ALL PLANNING COMMISSION
OFFICIALS CONCERNED WERE CONSULTED AND BDG REQUESTS
USG CONSIDERATION DELETION THIS ONE PRECENT CUP PROVISION.
HOSSAIN NOTED CUP RAISED FOLLOWING PROBLEMS FOR BDG:

(A) FY 76 BUDGET ALREADY PASSED BY PARLIAMENT
WITH NO RPT NOT PROVISION FOR SUCH TAKA PAYMENT
AND IT NOT RPT NOT POSSIBLE REDUCE EXPENDITURES
WHICH HELD TO MINIMUM TO MAXIMIZE DOMESTIC
CONTRIBUTION TO DEVELOPMENT;

(B) BUDGET EXPENDITURES, HOSSAIN CONTINUED, BEING
HELD TO ABSOLUTE MINIMUM IN LINE WITH DONOR
RECOMMENDATIONS GENERALLY AND LETTER OF

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INTENT TO IMF SPECIFICALLY. LETTER OF INTENT
INTER ALIA SPECIFICALLY COMMITS BDG TO RESTRICT
CREDIT EXPANSION.

HOSSAIN ADDED IT WOULD FACILITATE EARLY AGREEMENT IF
BDG COULD HAVE USG RESPONSE THIS REQUEST TO DELETE CUP
BEFORE AUGUST 4 MEETING.

4. TENDER REQUIREMENTS. BDG OFFICIALS EXPRESSED CONCERN

AT POLITICAL IMPACT OF FORMAL STATEMENT IN AGREED MINUTES CONCERNING CPROCEDURES FOR OCEAN FREIGHT AND COMMODITY TENDERS (PARA 7, REFTEL A). THEY ASKED SPECIFICALLY WHETHER THESE REPRESENTED ANY CHANGE FROM ACTUAL PRACTICE DURING FY 75, AND WHETHER SUCH PROCEDURESS WERE REQUIRED IN CASES OF PL 480 AGREEMENTS WITH OTHER COUNTRIES.

5. SELF-HELP MEASURES. MOST SELF-HELP MEASURES READILY ACCEPTABLE, BUT IMPLIED FLAT ASSURANCE THAT SUBIDIES ON AGRICULTURAL INPUTS BE REMOVED DURING CURRENT FISCAL YEAR RIASED SERIOUS PROBLEM FOR BDG OFFICIALS. THEY WERE ALSO CONCERNED, BUT TO A LESSER EXTENT, WITH THE REQUIREMENT TO MAINTAIN FARM OUTPUT PRICES AT REMUNERATIVE LEVELS. WE ANTICIPATE PROPOSALS TO SOFTEN THE FIRST OF THESE PROVISIONS AND TO LIMIT THE SECOND TO FOOD- GRAINS.

6. IN ADDITION, BDG OFFICIALS ALSO ASKED FOLLOWING SPECIFIC QUESTIONS AT JULY 23 MEETING TO WHICH WE WOULD APPRECIATE YOUR PROMPT RESPONSES:

- (A) PREFER DOLLAR EQUIVALENT FOODGRAINS \$71.4 MILLION, BE UTILIZED SOLELY FOR WHEAT. IS IT POSSIBLE TO INCREASE THE WHEAT COMPONENT AND REDUCE THE RICE COMPONENT?
- (B) CAN VEG OIL COMPONENT BE INCREASED?
- (C) SPECIFIC REASONS FOR THE REQUIREMENTS OUT- LINE PARA 7, REFTEL A.

7. SHIPPING SCHEDULE. BDG OFFICIALS NOTED THAT THERE NO REFERENCE TO TIMING OF FOODGRAIN ARRIVALS IN THE US DISCUSSION NOTES. SPECIFICALLY, THEY HOPED THAT FOOD- GRAIN SHIPMENTS COULD REACH BANGLADESH BEGINNING NO LIMITED OFFICIAL USE

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LETER THAN OCTOBER, 1975. MISOFFS POINTED TO AGREEMENT PROVISIONS, PART I, ARTICLE I, SECTION B. WE MAY EXPECT BDG OFFICIALS TO PROPOSE SOME GENERAL LANGUAGE ON THIS QUESTION FOR INCLUSION IN THE AGREED MINUTES.

8. MISOFFS NOTED THAT FIRST FOODGRAIN SHIPPED UNDER OCTOBER 4, 1974 AGREEMENT REACHED BANGLADESH ONLY IN FEBRUARY 1975 AND THAT PROMPT CONCLUSION THIS NEW AGREEMENT ESSENTIAL IF ANY SHIPMENTS TO REACH BANGLADESH THIS FALL. WE SAID USG ON TIS SIDE WOULD DO ITS BEST TO RESPOND PROMPTLY TO ANY POINTS RAISED BY BDG CONCERN- ING THIS PROPOSED AGREEMENT. BDG SCHEDULED MEETING TO CONVEY FORMAL INITIAL RESPONSE FOR AUGUST 4 AND EXPRESSED HOPE THAT AGREEMENT COULD BE SIGNED AS SOON AS POSSIBLE THEREAFTER.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, AGREEMENT DRAFT, CURRENCY CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 26 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: RowellE0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975DACCA03631
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750258-0928
From: DACCA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750717/aaaaapdk.tel
Line Count: 170
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION AID
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 STATE 170157
Review Action: RELEASED, APPROVED
Review Authority: RowellE0
Review Comment: n/a
Review Content Flags:
Review Date: 04 AUG 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 AUG 2003 by ShawDG>; APPROVED <21 NOV 2003 by RowellE0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PL 480 TITLE I NEGOTIATIONS WITH BANGLADESH
TAGS: EAGR, EAID, BG
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006